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ISSUE NO. 2: PROBLEMS AND PROSPECTS OF
PRODUCTION AND MARKETING OF LEATHER PRODUCTS IN
DEVELOPING COUNTRIES, AND CO-OPERATION MEASURES
WHICH COULD BE ENVISAGED BETWEEN
DEVELOPING AND DEVELOPED COUNTRIES *

Prepared by
the secretariat of UNIDO

Note: This issue paper is based on the background paper on
"Production and Marketing of Leather Products in Developing
Countries: Problems and Prospects" by B. Lunden and ITC's
paper on "Export Marketing and Distribution of Leather and
Leather Products in Developing Countries".

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I. MAIN FACTORS AFFECTING THE ISSUE.

1. There are two main factors constituting the issue in the development of the leather products industry in the developing countries:

- (a) Production
- (b) Marketing and distribution.

1. Production problems facing developing countries

2. Until fairly recently, the efficient and more or less mechanized production methods were the prerogative of the industrialized countries. However, during the last couple of decades, the focus has been centred on the development of leather and leather products industries in the developing countries. In a number of these countries, particularly the least developed countries amongst them, raw hides and skins are among a very few national resources they possess. However, tanning and leather products industries have not received the very high priority they deserve in the national economy. Almost all the national governments concerned have exerted great efforts and spent much capital to build up leather industries; in some cases successfully, but unfortunately often with very unsatisfactory results.^{1/}

3. The production problems facing a number of developing countries include the following:

- (a) Availability of adequate supply of raw materials;
- (b) Access to auxiliary materials;
- (c) Appropriate technology and equipment;
- (d) Cost and efficiency of production;
- (e) Quality and standard of production;
- (f) Manpower resources and training needs; and
- (g) Capital requirements.

^{1/} See also the UNIDO Terminal Report on Least Developed Countries presented to the Panel at its Second Session entitled: "Special Programme of Assistance for the Least Developed Countries in the Leather and Leather Products Industries", UNIDO/IOD.242, 9 March 1979.

2. Marketing problems facing developing countries

4. Assuming that the problems of supplies of raw material and production bottlenecks are resolved satisfactorily, developing countries are generally faced with a number of other problems. These can be classified into three broad categories:

- (a) Lack of knowledge of the structure and nature of target markets and the business methods used on these markets;
- (b) Lack of know-how and experience as regards sales strategies, demand analyses, price movements, etc;
- (c) Too strong a concentration on certain import markets and certain product lines.

II. CRITERIA FOR SUCCESSFUL LEATHER PRODUCTS INDUSTRIES

5. In view of the recent developments in the sector as described in the background paper, the following factors appear to have special significance for the establishment of successful leather products industry in developing countries.

- (1) Adequate domestic supply of hides and skins is a prerequisite for the establishment of a leather and leather products industry.

6. In spite of the recent experience of the Republic of Korea, Hong Kong and other South East Asian countries where the export-oriented leather products industry rose more or less entirely on the basis of imported raw materials, they should not be imitated. Today it is extremely difficult for the Republic of Korea, for example, to manage the leather products industry because of (i) the steep rise in the world price of raw stocks accompanied by tremendous increases in working capital requirements, and (ii) the changing attitude and policy of its main trading partner which restricts unlimited exports of leather products. As more and more countries restrict the exports of raw hides and skins, those countries which base their leather products industry exclusively on imported raw material will find themselves increasingly in a precarious and dangerous situation not only in terms of securing adequate quality supplies of raw stocks from a diminishing world market but also in the operating costs of the industry and meeting planned targets for export markets.

(2) A leather products industry capable of manufacturing a variety of standard quality finished leathers is a necessary complement, especially if exports are contemplated.

7. Finished leather is the raw material of the leather products industry. It takes several years for a newly established tannery to manufacture quality standard of finished leathers. In most developing countries, the quality and standard of leather produced has not reached the required level for exports of leather products.

8. In countries where the raw hides and skins supply is insufficient, imported leather may provide an alternative basis for establishing the appropriate volume and product mix for domestic demand of footwear and leather goods.

(3) For export-oriented leather products industries in developing countries, it is essential to establish firm marketing arrangements with suitable partners or trade organizations in the countries in which the products are intended for sale.

9. There are generally three main marketing problems faced by developing countries:

- (a) lack of knowledge of the structure and organization of the target market and the type of commercial transactions used in the market;
- (b) lack of know-how and experience with regard to sales strategies, demand analyses, price movements, etc. in the target market;
- (c) generally too strong a concentration on **specific** import market and specific product lines.

10. In planning export marketing strategies, the following prerequisites are essential:

- (a) a realistic appraisal of domestic supplies of leather and its quality;
- (b) a realistic appraisal of the capability to manufacture specific types and qualities of leather products;
- (c) current information on world demand and on individual markets and areas.

11. The establishment of production facilities exclusively for export markets has negative repercussions, unless, of course, the export market is guaranteed. Production which does not measure up to export specifications should have an outlet on the local market. Marketing activity could thus also profitably be directed towards domestic markets in order to develop demand and lay the groundwork for the inevitable growth in local consumption.

(4) A well-trained management staff and labour force are essential for the success of a leather products manufacturing company.

12. This requirement is often overlooked and the time required for proper training is usually underrated in developing countries with the consequent result that their leather products do not pass the quality and standard required for export markets. There is a tremendous scope for co-operation between developing and developed countries to meet the manpower resources and training needs of the developing countries either through joint ventures or direct technical assistance. In particular, there is also room for co-operation between the newly industrialized developing countries and other developing countries.

(5) The capital needed to establish a leather products factory is dependent on a number of variables and no general formula can be applied.

13. The leather products industries usually require significantly larger outlay of working capital than fixed capital for machinery and building.

Footwear - the production technique greatly influences the cost of machinery e.g. Goodyear welt, vulcanized or injection moulded shoes require greater capital investment than cement-lasted or handmade shoes.

Leather Garments - and most leather goods, such as handbags, wallets, etc. require much less fixed capital in machinery and building. However, it requires larger outlays of working capital compared to footwear.

14. Therefore it is futile to try to estimate capital investment requirements for the manufacture of all kinds of leather products. The difference between an artisan and an industrial production lies less in the machinery than in the consistency of the operations and the quality of its production. However, in general, developing countries underestimate the need for adequate working capital.

15. Other factors such as auxiliary materials, infrastructure, transport, electricity, etc. could also affect the establishment of a successful leather products industry. Should a definite failure in any of the above factors (A--E) occur, the success of the industry as a whole would be seriously impaired.

16. The examples of successful developments of leather products industry in developing countries clearly brings out two distinct features^{1/}:

- (i) A step-wise development, such as in Latin America, seems to be the ideal approach. With an adequate supply of local raw hides and skins, a tanning industry should first be established, which in itself might need a gradual expansion from wet blues to crust to finished leathers for the home market and to finished leathers of adequate quality for export. With the supply of finished leathers of adequate quality, the leather products industry should then be developed: first, producing for the home market, and, thereafter, when enough experience has been gained, turning to the export markets.
- (ii) Joint ventures or firm production/marketing arrangements with competent partners or organizations in the industrialized countries have proven themselves to be a critical factor, especially in reducing the time required for the running-in of the factories and for establishing export markets.

III. IMPACT AND IMPLICATION OF NON-LEATHER MATERIALS

17. It is at present impossible to show with any accuracy the total use of non-leather materials. Only one thing is certain - the general trend is towards greater use of these non-leather materials, mainly because leather is simply not available in sufficient quantities. The world supply of leather is and will be limited, growing only slowly. The demand for leather products of all kinds will grow much more rapidly and particularly the demand for footwear in the developing countries. (Available leather will be channelled into those leather

1/ Cf. Country Profiles in Background Paper No.1 Paragraphs 22 to 46.

products which will give the best economic results under existing circumstances with respect to local production capabilities, product demand, trading conditions, etc. Taking into account the use of non-leather materials both in "leather" and in non-leather shoes as well as in ladies' handbags, soft travel-goods and other leather goods, it can probably be safe to say that, calculated as area (m^2), at least as much non-leather materials as leather are currently being used in traditional leather products. Of necessity the use of these materials will in the future also grow much faster than the use of genuine leather).

IV. PROBLEMS AND PROSPECTS OF LEATHER PRODUCTS' DEVELOPMENT IN DEVELOPING COUNTRIES

1. Introduction

18. Hides and skins are tanned to be consumed as leather products. The final import of this development is (a) where are the goods produced? (b) where are they consumed? and (c) what are the prospects for change in production and consumption?

19. The consumption of leather and leather products is linked to the standard of living. Thus developed countries have remained the focal point for both production and consumption. Export volume of these countries was almost entirely with other developed countries and the exports of developing countries was also directed to the developed regions, primarily North America. In foreign trade, at any rate, developing countries do not seem to have addressed marketing and distribution efforts to potential markets in other developing countries and regions.

20. Although the total foreign trade position of the developing countries grew sharply, generalization on the score is fallible. Examination reveals that the greatest part of the increase was concentrated in a few countries. Moreover, a single foreign market, the U.S., has been the central focus of trade expansion by the developing countries.

2. Major constraints

21. For the next few years, supply will be the dominant problem of developing nations as well as the developed regions. Countries favoured by adequate available supply will be able to sustain output of leather products and exploit developments in foreign trade. The countries which must compete for scarcer raw material supply will encounter serious problems in maintaining output and trade levels reached by 1978. Countries in this latter group are the Republic of Korea, Hong Kong, Taiwan and the Philippines.

22. In other Asian countries with adequate resource endowments, the problems are different. The main constraint continues to be in the full utilization of raw materials supply for leather products. Considerable amounts of semi-finished leather are still exported. India, Pakistan, Thailand, Bangladesh and Sri Lanka will be able to increase their export of leather products. This will depend mainly on their ability to overcome current problems relating to manpower training technical know-how and export promotion and marketing of leather products.

23. The countries in Africa are facing many serious problems. The quality of basic rawstocks supply is one of the bottlenecks in the development of the leather products industry. Unless this situation of poor supply is improved, Africa will continue to play a minor role in the leather products industry. In other resource-rich African countries, lack of effective manpower training, technical know-how and marketing intelligence continues to retard the growth of the industry.

24. South America is the developing region where no major constraints in the leather products industry exist, and with the brightest prospects for growth of output in leather products. Cattlehide supply in Brazil and in temperate South America are abundant and will probably increase in coming years. Modern facilities exist for production of leather and leather products. Both manufacturing and marketing expertise have been developed, and an industrial labour force exists in most countries of the region. The future status of South America as a centre of leather products industry looks bright.

3. Prospects for development

25. In discussing the prospects for the Leather Products industries in developing countries it might be useful to reiterate some salient points^{1/}:

- (a) The world-wide supply of hides and skins will always be limited and the growth will be slow.
- (b) The demand for leather products and consequently for leather is far greater and will certainly grow much more rapidly than the available supply of leather, particularly taking into account the potential demand in the developing world.
- (c) Even if there are suitable non-leather materials available to fill the supply gap, leather in most cases is and will in all probability continue to be the preferred raw material, economics allowing.
- (d) A potential demand in a local market will usually reveal itself as soon as a local production is started.
- (e) Regional marketing arrangements could be stimulated in contiguous developing regions.

26. The prospects for the development of leather products industry in a particular developing country should be good provided that -

- (a) the domestic raw hide and skin supply is adequate and
- (b) steps are taken to ensure that the above mentioned criteria for successful development of leather products industry are, in fact, fulfilled.

V. CO-OPERATION MEASURES BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

27. Co-operation measures between developed and developing countries or between developing countries themselves, as well as assistance in this regard from international organization should promote the establishment of the above mentioned criteria for the development of successful leather products industry in developing countries.

^{1/} Factors relating to the prospects of trade and development in the leather and leather products sector are discussed in Briefing Paper No.6.

1. Measures to be taken by developed countries

(a) Further adjustment assistance measures on existing leather products capacities from developed to developing countries is desirable. Developed countries do not need to fear competition in leather products from developing countries since the bulk of the trade in industrialized countries is from other industrialized countries^{1/}.

(b) A joint venture operation in which a competent partner from an industrialized country supplies the desired services and industrial capabilities has, in fact, proved to be one of the few ways and means to establish successful leather products industry in developing countries.

(c) Training is a key factor in development. Normally the best results are obtained by in-plant, on-the-job training. However, offers from suitable industries in developed countries to receive personnel with adequate theoretical background for preferably long term training in appropriate executive positions would be of immense value to the developing countries.

(d) Assistance in the establishment of distribution networks in developed countries for leather products from developing countries could play a decisive role in the planning of product mix, as well as the marketing of such products in target export markets.

2. Measures to be taken by developing countries

(a) A transfer of appropriate technology between developing countries should be especially useful and effective. For example, the leather shoe production in Brazil and leather garment production in Uruguay, could be developed along similar lines in other countries of Africa and Asia with adequate raw materials supply. However, such examples of co-operation measures are sadly lacking today.

(b) Regional centres which undertake training of different kinds as well as R and D work, could supply substantial relief for the industries in neighbouring developing countries. What is really needed is a close co-operation between the developing countries involved to ensure economic parity, adequate facilities, suitable syllabuses and influence on relevant R and D inputs including exchange of technical know-how, etc. . Current financing of Regional Centres are far from adequate for the above purpose and it has been found difficult to organize the required inputs.

3. Measures to be taken by international organizations

28. The measures that can be taken by **international organizations** are two-fold.

A. Technical Assistance - in the formulation and execution of integrated programmes of development assistance, a close co-operation in all areas of programmes execution by international organizations is important in order to achieve maximum impact on the basic needs of the recipient country. In order to avoid duplication of efforts and scattered assistance, which results in little or no impact on recipient countries, it would be advisable to develop integrated programmes and projects.

B. Financial resources - experience so far shows that more often than not finance is not adequate for the types of inputs that are required to achieve a meaningful impact in development assistance programmes in this sector. Therefore there is a need for a more integrated approach to project financing.

VI. RECOMMENDATION TO THE PANEL

29. The Panel may wish to consider the issues raised above and recommend ways and means of presenting them to the next consultation meeting.